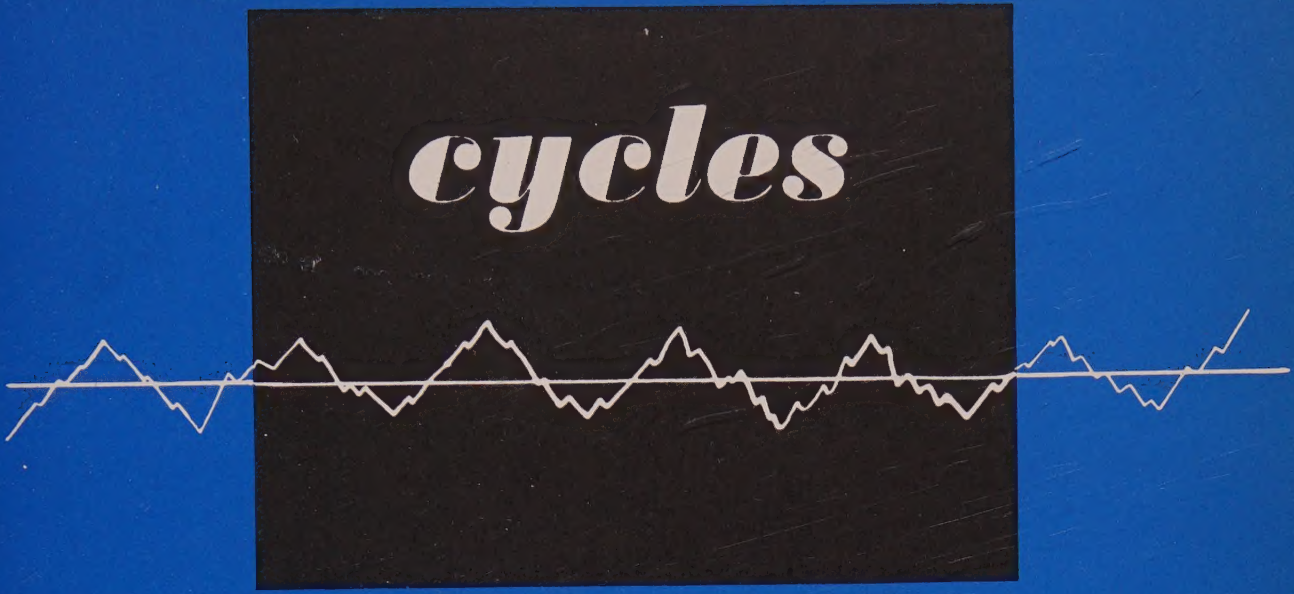

cycles

July 1961

FOUNDATION FOR THE STUDY OF CYCLES
New York, New York

cycles

JULY 1961

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Cycles are only *one* of the forces you must consider if you are attempting economic forecasting.

If you ignore the cycles you run the risk of serious errors.

But unless you study and weigh all the *other* forces that, in addition to cycles, combine to create economic change, you will make grave mistakes.

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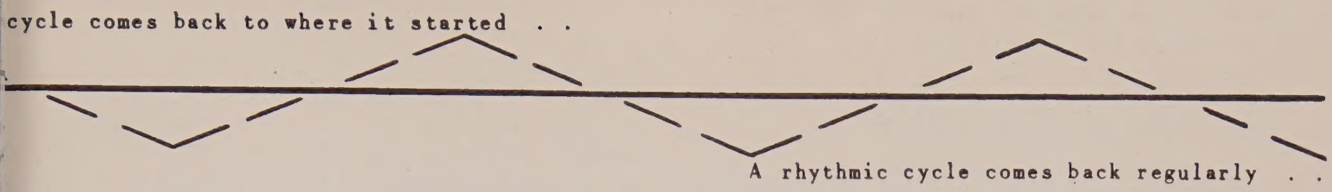

cycle comes back to where it started . .
A rhythmic cycle comes back regularly . .

THE DIRECTOR'S LETTER

Dear Member:

Things are coming along pretty well for the Foundation:

First of all, we have been offered *all* the computer time and programming assistance we need to help solve some of the problems of cycle study. I estimate the commercial value of this gift to be in excess of $20,000.

Second, officials of one of the large Foundations have suggested that it would be quite appropriate for us to request a sizable grant. (Our request, however, must be made through a college or a university.)

Third, the New York Academy of Sciences has asked us to join with them in sponsoring a four day conference on "Rhythmic Functions in the Living System."

Fourth, one of our members has just contributed $7,000 toward our basic research program.

Electronic Computer

Some day I'd like to tell you what one of these modern high speed electronic computers will do. For now, however, it is enough to say that we need no longer think of how much work *any* given set of calculations will entail. It is as if we had a whole *army* of clerks at our disposal.

I think we should use these facilities in four ways:

1. Reconnaissance.
2. Testing alleged rhythmic cycles for statistical significance.
3. Testing the alleged cross-correlation of cycles.
4. Testing and improving present methodology.

Reconnaissance. The machine could examine hundreds or even thousands of series of figures for *every possible* cycle easier than you or I could hunt for one cycle in one series. The limiting factor here is not finding the cycles—it is in holding down the search to results of publishable proportions. I therefore plan to hold our initial inquiry to the last hundred years or so and to about 240 possible cycles in the full hundred years and in each 50-year segment. As it will take about 8 1/2 pages to present the results of the analysis of each series, a study of 30 series will fill a book of over 250 pages long.

If you have any ideas in regard to series of figures we should study, please write me.

2. *Testing.* All the cycles turned up by our reconnaissance, and all the cycles we, or anyone else, have discovered in years gone by, should be tested for statistical significance. That is, they should be run through the machine to see (as best we know how to do it) how many times out of a thousand they could have come about by chance.

This is our number 2 project (*unless you can suggest a better one*).

3. *Cross Correlation.* For each cycle dis-

covered, how many other things have cycles of the same wave length? Are the lengths *exactly* the same? Do the waves in the different things crest at about the same time?

This, I think, might be number 3 on the list. *Any ideas or suggestions?*

4. *Improving techniques.* Here is a place where we can use electronic computation to the full. However, I put it number 4 on the list because we might as well go as far as we can with what we now have before we get bogged down into a morass of technicalities. We have an old flivver ready to run. Let's jump in and go somewhere instead of trying to build ourselves a Rolls-Royce.

Your comments on any part of this program will be most welcome.

The Foundation Grant

One shouldn't count one's chickens before they are hatched, but if one doesn't stick some eggs under the old hen, one never gets anything at all.

I have the feeling that $40,000 a year for five years would be a pretty good objective, and that if we put up $10,000 a year for 5 years (which we could easily do) it would not be unreasonable to hope for the other $30,000 a year from the large foundations.

We are actively at work to effect a University affiliation through which we might make such a request.

The Cycle Conference

Forty or more of the world's leading cycl scientists have agreed to participate in th conference in New York on November 8, 9, 10 and 11. We are proud to have had something t do with helping to put this conference together; we are happy that the New York Academ of Sciences recognized this fact by invitin us to join them in sponsoring it.

The conference itself will cost the N. Y Academy $20,000, exclusive of the cost o bringing foreign scientists here. Travel wil cost an added $6,500, of which $2,500 ha already been raised.

Someday I'd like to tell you all about th New York Academy. It's quite a story.

The $7,000 Gift

There is not too much to say about thi gift except that it quite overwhelmed me. imagine you feel the same way.

Membership

You will be pleased to know that membershi in the Foundation is holding at about th 5,000 level and that renewals are at twice th former rate.

Cordially yours

Edward R. Dewey

Executive Directo

HOW IT CAME OUT:

THE 35.4-MONTH CYCLE IN INDUSTRIAL COMMON STOCKS

by Gertrude Shirk

Back in September 1952, *Cycles* carried a story about a cycle in industrial common stock prices which was just under three years in length. The exact length was reported to be 35.4 months, and the overall amplitude was reported as about 8% of trend. An ideal or average low was said to be due at March 1953. (The current timing would therefore call for a low on the cycle at December 1961.)

This cycle was repetitively present in the data which were used in 1952, and which covered the period from 1871 to 1952. How has this cycle come out? Was the length and timing accurate? Most important, is the cycle reliable enough at the present time to be included in our combination of stock price cycles?

We now have a continuous stock price record which goes back to 1789. This record adds 82 prior years to the work. Also, we can add the eight years since 1952 to the work, making a total of about 90 additional years of data. In other words, the data we are using to audit the 35.4-month cycle cover about twice as much time as was covered by the previous work.

Figure 1 on the next two pages shows the cycle for the entire period for which we now have data. The period covered by the 1952 work is marked off so that you can see the 1961 backward and forward extension of the work clearly. On the chart the rigid zigzag broken line shows the ideal, or average cycle. This average cycle is the one worked out in 1952, but is extended in both directions to cover the earlier and later data.

The data line, which is the solid line on the chart, gives the result of a manipulation made to the actual price series in order to eliminate the so-called 41-month cycle. (The 41-month cycle is the most important length which would seriously interfere with our seeing this wave. In fact, our main reason for auditing this length at this point is to be able to take it into account in our 41-month work.)

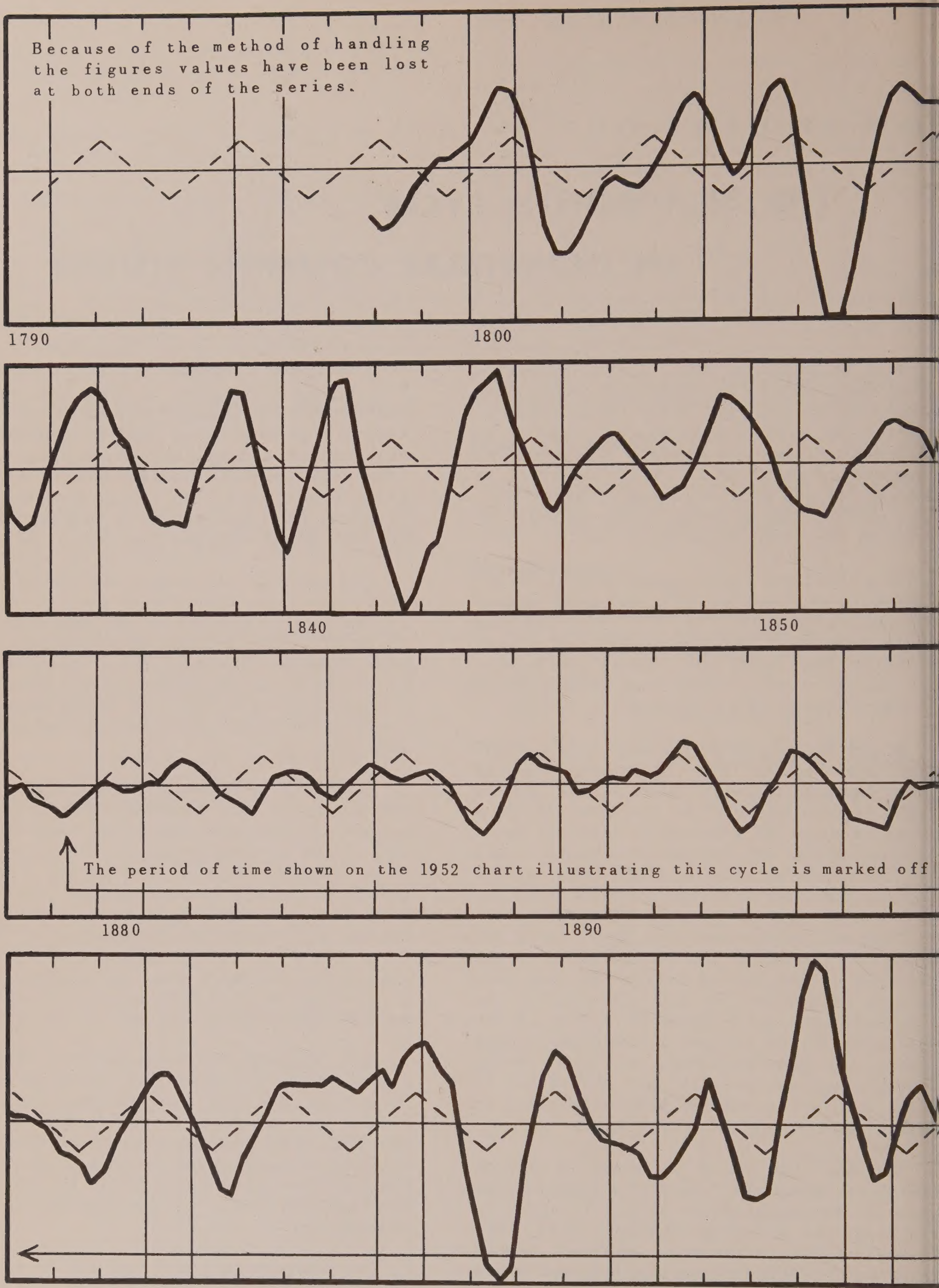
The trend of stock prices is shown on Figure 1 as being level at 100%, and the data weave above and below the trend in an oscillating line which does indeed, according to our current check, have an average length from high to high, or from low to low, of about 35.4 months. The timing and amplitude of the average cycle appear to have been worked out with enough accuracy that they still apply.

Incidentally, the length and timing of the 35.4-month cycle agree almost exactly with one of the cycles included in the anonymous work on copper share prices which was published last December. The cycle used in the copper shares work was 35.49 months in length, and a crest occurred at 1957.579. The corresponding crest in the cycle discussed here would be at 1957.500.

Returning to Figure 1, if you compare the two lines, you will find many times when they are not in phase with each other. Nevertheless, 59% of the turning points in the solid line occur within two quarters of the turning points in the average zigzag line. (The 1961 work was done with quarterly rather than monthly figures to reduce the volume of work.) In a purely chance distribution of a three-year cycle, the peaks would not cluster around a matching, or zero difference, but would be spread evenly along the entire range.

But, although the correspondence between the two lines is better than you would expect by chance, the fact remains that the match between the two lines is not good for 41% of the time. It is hardly wise to include this cycle in our combination of stock price cycles. Possibly the performance should be closer to 80% than 60% before we are justified in including it.

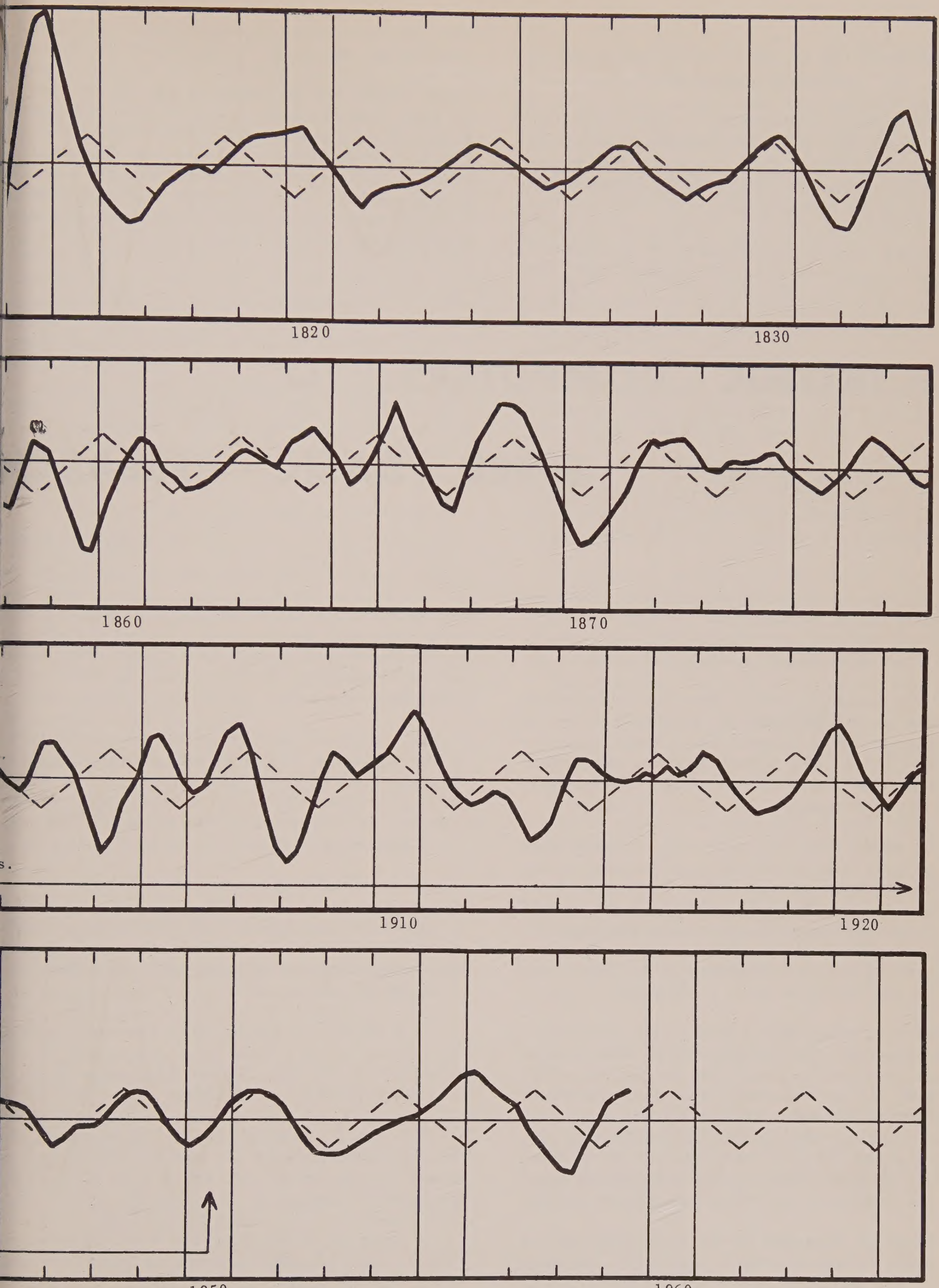
The result of the audit of the 35.4-month cycle is mixed. On the one hand, the cycle does appear to have been present in the data more often than not since 1789. On the other



Because of the method of handling the figures values have been lost at both ends of the series.

The period of time shown on the 1952 chart illustrating this cycle is marked off

FIG. 1: THE 35.4-MONTH CYCLE IN INDUSTRIAL COMMON STOCKS


1820
1830
1860
1870
s.
1910
1920
1950
1960

hand, it does not seem practicable to include the cycle in the combination of stock price cycles. One factor may change this conclusion. The performance of the cycle is partly a function of the fact that this series of figures is not very "clean." The 41-month cycle has been eliminated from the data, but there are other cycles which are still present and which obscure the picture.

We feel compelled to report an occasional seemingly negative result. In searching for the shorter cycles of importance and dependability to add to our combination of cycles, we want also to account for all the known cycles that may be present. The major result to come from the work reported on here is that although we are not going to include this cycle in our combination (unless we can greatly clarify it), it is nevertheless persistent enough that it must be taken into account in working with other cycles of closely related wave length.

ELECTRONIC COMPUTERS TO SPEED BASIC RESEARCH

by Edward R. Dewey

In a letter I wrote to our Directors on April 28th last, in advance of our regular quarterly directors' meeting, I said:

"In connection with the Basic Research Program we are getting to the place where we can use electronic computers. I have wanted to do this for a long time but there are difficulties. The situation reminds me of the darky and the minister.

"It seems that the minister, walking down the street, saw a colored man teaching a dog to jump through a hoop. 'How do you get your dog to do that, Rastus?' said the minister, 'I can't get my dog even to sit up and beg.'

" 'Well, shu,' said Rastus, 'de fust t'ing is, yu got to know more'n de dog.'

"That is the trouble with using electronic computers, too. For instance, I'd like nothing better than to feed all the cycles ever discovered into an electronic computer that would tell us which were really significant and which were merely the result of having fun with figures. I'd like to separate wheat from chaff. There is however, as yet, no adequate and universally accepted method of doing this.

"Lacking adequate tests, I'd like to use electronic computers to design some, but here again, one needs to know more'n de dog."

This letter was hardly in the mail before we received the offer of all the computer tim and programming we need, as I told you i this month's Director's Letter. Now we'v *got* to know more than the dog. To this end bespeak your help.

It seems to me that we need to set thi program up in terms of *questions*, and le the machine provide the answers. (In doin all this we need to keep in mind how th product of the machine can or should be published).

What should these questions be?

Even if you don't feel that you are abl to tell the machine *what* to do, you can as the questions as well as the next man, an I wish you would.

I'm still wrestling with Reconnaissance the first of the four points I named in th Director's letter. So far I've come up wit three projects, as follows:

Project I, preliminary reconnaissance, t scan 20 to 50 important series of figures t find, or at least get hints of, *all* cycle present in each.

I have in mind that for this project w should make all the time series cover the sam calendar period; that we should use fairl long series of figures; that we should content ourselves with annual figures; and tha we should not strain for specious accuracy.

I've decided (tentatively) on the 96 years from 1865 through 1960. I also have in mind to make, for each series, 231 periodic tables for the entire series and 231 additional tables for each half of the series (693 periodic tables in all). This will tell us the average strength for the series as a whole and for each half of all harmonics down through the 48th and for 4 intervening points as well. We could, of course, just as easily find the strength for 10 or 20 inter-harmonic wave lengths but a publication problem presents itself. As it is, about 8 1/2 or 9 pages will be required to publish the results for each series of figures. This, for merely 30 series, would mean a 250-300 page book of basic raw material. When published, this would give us source material from which we could answer questions of the following sort:

1. What is the strength of each wave length of a relatively continuous spectrum of each series of data, ex secular (long term) trend?
2. To what extent does this selected sample of time series show hints of cycles?
3. To what extent do these hints of cycles remain of constant wave length and phase over each part (half) of the period studied?
4. To what extent are these hints of cycles (wave length and phase) common to more than one series of figures?
5. Are there any suggestions of inter-cycle relationships—families of cycles?

Project II (as I now envisage it) would consist of reconnaissance relative to the same series of figures but in greater depth.

As you all know, there are two very simple ways of minimizing the distortions that make cycles seem longer or shorter or stronger or weaker than they are, or change their timing. The first of these ways is to express the data as percentages of a suitable moving average; the second is to use the principle of limited data.

I have in mind that Project I could be done over with each cycle isolated from deviations from a proper moving average, and with the data in each periodic table suitably limited. This project would result in a second book. If Project II is merely Project I done over better, why should we bother with Project I? I am not sure we should, but would like your advice.

My thoughts are as follows:

The methodology of book one, although a marked improvement over *anything* done to date, is still close enough to established methods to gain automatic acceptance.

In contrast, the methodology of book two, although an improvement over the methodology of book one, is not as commonplace as the methods used in the first book, and conclusions reached are likely to be suspect or rejected because the import and effect of the methodology is not fully understood.

Also, the fact that book two will support the results of book one will tend to give confidence in the methods of book two.

Book two will result in *overlapping* sections of spectra whereas a continuous spectrum has certain advantages. Book one will give a virtually *continuous* spectrum.

Project I will give 231 points on a periodogram covering all cycles from 2 years to 48 years (at 1/5 harmonic intervals) all derived from the same series of figures.

Project II would give one bunch of cycles as found in deviations from a two-year moving average; another bunch as found in deviations from a 3-year moving average; and so on up to, let us say, deviations from a 21-year moving average. The results would be definitely better but we would run the risk of not being so well understood and the feeling, on the part of some people, that a "diddle" factor may have been introduced.

Project II would be designed to supply the material from which we could answer questions like these:

1. What are, *more exactly*, the periods and phases of the cycles of which we had hints in the preliminary reconnaissance?
2. What bearing do these facts have upon the conclusions reached from the preliminary reconnaissance?

Project III would—as I now see it—cover series with at least 150 years of data available, and would require different treatment for almost every series of figures. That is, for some series we would use each third or fourth or tenth of the series separately (depending on the length of the series) and would scan at 1/10 harmonic, 1/20 harmonic, or some other interval.

Project III would be designed to supply the material from which we could answer questions like these:

1. To what extent do hints of cycles per-

sist over longer periods of time?
2. What are the most accurate measures of period and phase for each hinted-at cycle?

That is as far as I have gotten in my planning as this issue of *Cycles* goes to press. What I would like from you are suggestions as to the series that should be included in Projects I, II, and III; other questions that might be asked of the machine, and your ideas relative to sections 2, 3, and 4 of the entire project. (See the Director's Letter on page 167.)

In connection with your suggestions please keep in mind that we have a publishing problem. There is no use in getting an infinite number of calculations that have to rot in the files for lack of horsepower and money to publish them.

Do let me hear from you. I am seeking ideas, simple or complex. I want to pick your mind if you have any suggestions to offer, and I am using this vehicle as the quickest, easiest way to reach you. Remember too that time is pushing us. As we go to press, the list from which I thought to make our final choice for Projects I and II follows:

Astrophysical
Sunspot Numbers Plus the Sunspot Number Constant from 1700.
Sunspot Numbers with Alternate Cycles Reversed from 1700.

Geophysical
Earthquakes, if obtainable

Hydrological
Levels of Lake Ontario from 1860.

Climatological
Temperature at New Haven from 1780.
Precipitation at Philadelphia from 1820.
Barometric Pressure at New York from 1870.

Biological
U.S.A. Population from 1790.
Death Rates in Massachusetts from 1860.
Abundance of Grasshoppers from 1840.
Abundance of Lynx from 1735.
Abundance of Chinch Bugs in Illinois (if available).
Tree Rings - (one of several series).

Sociological
Methodist Church Membership from 1790.
Patents Issued from 1790.
International Battle Index from 599 B.C.
Civil War Battle Index from 599 B.C.
Combined Battle Index from 599 B.C.

General Economics
Post Office Revenues from 1789.
U. S. Government Revenues from 1792.

Fuel and Mineral Production
Bituminous Coal Production from 1800.
Anthracite Coal Production from 1808.
Crude Petroleum Production from 1861.
Copper Production from 1845.
Lead Production from 1821.
Zinc Production from 1858.
Pig Iron Shipments from 1846.

Transportation
Ton Miles, Railroads from 1865.

Construction and Real Estate
Total Construction from 1868.
Voluntary Transfers from 1795.

Foreign Trade and Banking
Imports of Goods and Services from 1790.
Exports of Goods and Services from 1790.
Loans of all Banks from 1834.
Deposits of all Banks from 1834.
Currency in Circulation from 1830.

Security Prices
Stock Prices from 1789.
Bond Yields from 1857.

Industrial Production
Manufacturing Production from 1863.
Steel Ingot Production from 1867.
Shipbuilding from 1797.
Cigarette Production from 1870.
Wheat Flour Production from 1870.

Agriculture Production
Cotton Production from 1790.
Corn Production from 1866.
Wheat Production from 1866.
Cotton Acreage from 1866.
Corn Acreage from 1866.
Wheat Acreage from 1866.

Wholesale Prices
Average Wholesale Prices. U.S.A., from 1720.
Cotton Prices from 1731.
Corn Prices from 1720.
Wheat Prices from 1784.
Pig Iron Prices from 1784.
Copper Prices from 1789.

Time and time again. . .

BY GUSTAV GUMPERT

Ions for Honesty

Readers of this column will recall a previous report about the effect of negative ions. We pointed out that negatively charged ions in the air seemed to make people happy, while positive ions appeared to depress.

Now S. J. Curtis, security superintendent of the J. L. Hudson Company of Detroit, one of the world's biggest retail stores, has suggested the possibility of using atmospheric changes to cut down on shoplifting.

"It is becoming increasingly apparent," said Mr. Curtis, "that we have to change our thinking about how to cut crime. We have been trying to catch the criminal. This has now become a solution as impractical as cutting the snakes off Medusa's head."

1960's Deep Freeze

If you're beginning to thaw out from a tough winter, Selby F. Maxwell, Chief Astronomer of Weather Forecasts, Inc., has gloomy news for you. On the basis of cycles he has predicted that the 1960's will be cold, except around the time of sunspot minima when annual temperatures may reach average or above.

He also says that the 1970's will be warm, but it will turn cold again in the 1980's. Long severe droughts are also predicted for the 1970's and 1980's.

Visitors from Space

Scientists have concluded that the earth receives on the average of six visits from outer space a day, or 2,000 a year. But these visitors don't come in space ships. They are meteorites.

Although it's not known how many will strike the earth in any given year, during the last century and a quarter there has been recorded an average of just about 2,000 per year arriving on the inhabited portion of the earth.

This is, of course, the number of meteorites actually found and preserved, and undoubtedly the figure represents only a small part of the number that fall—even in the areas inhabited by civilized man, to say nothing of those that fall in the arctic or antarctic wastes, dense jungles, empty deserts, or on the three-fourths of our planet's surface that is water.

Is Jupiter Irregular?

Princeton scientists have found that the planet Jupiter is not always where it's supposed to be. A comparison between the observed and theoretically predicted positions of Jupiter shows that these positions do not quite agree with each other. This could be caused by two things: (1) our methods of measuring the planet's position are wrong, or (2) Jupiter actually moves in some irregular manner.

The scientists report: "Jupiter appears to be sometimes ahead of where it should be, sometimes behind. The difference changes regularly with time and goes through a complete cycle once every 12.4 years."

The El Niño Current

A Dutch authority on climate change recently predicted that El Niño, a catastrophic ocean current, would sweep down the West Coast of South America this year.

Periodically this warm current overrides the cool water of the Peru Current. The ocean is littered with dead anchovies. Other fish stay in deep water. The Peruvian beaches are strewn with dead birds, starved because the food normally found off shore has vanished.

The Peruvian economy is then hit by a shortage of guano, a primary source of fertilizer. Also, El Niño brings torrential rains and floods to the normally dry interior.

The prediction was made by Dr. H. P. Berlage of the Royal Netherlands Meteorological Institute in De Bilt. It was based on his study of cyclic variations of oceanic and atmospheric circulation in the Pacific area. He said the cycle takes seven years, but that under the influence of sunspots it is sometimes modified to six or eight years. Since the current is now a year overdue he believes there will be a particularly severe occurrence.

Market Signals

Based on our continuing study of market cycles, the short-term moves: June 1-5, down; 5-13, up; 13-21, sideways; 28, down slightly.

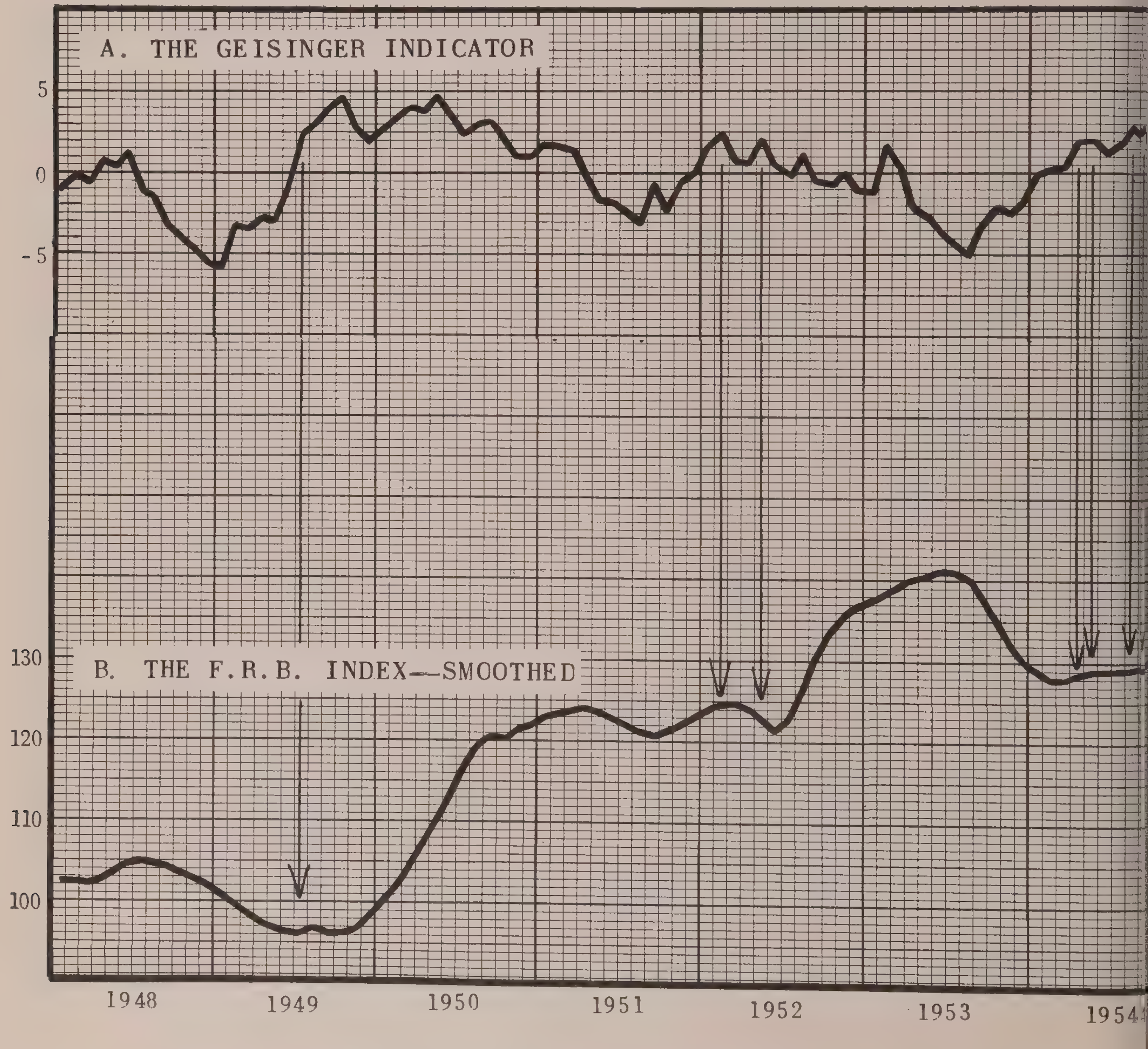
USING THE GEISINGER INDICATOR

In this month's Geisinger Indicator report on page 185, we say that although the Indicator turned (it went up to -2.20), and despite last month's dramatic increase in actual production, we will not say "good times ahead for sure" until the Indicator cuts *plus 2.00* going up.

There is good reason for our urging you to avoid over-using the Geisinger Indicator. Over the period during which the Indicator is available, boom times have followed when, and *only when* the Indicator has cut plus 2.00 going up. The record on this basis is perfect. The signals have operated in every case. But you mus wait for the signal.

Of course the Indicator has to turn an start up before it can get to plus 2.00, bu it can make, and has made false starts fro low points. It is necessary to wait until th Geisinger Indicator actually goes all the wa up to plus 2.00 before you can infer that boo times are probably ahead.

The chart below shows how well the Geisinge Indicator has worked in the past as an advanc notice of "good times ahead."



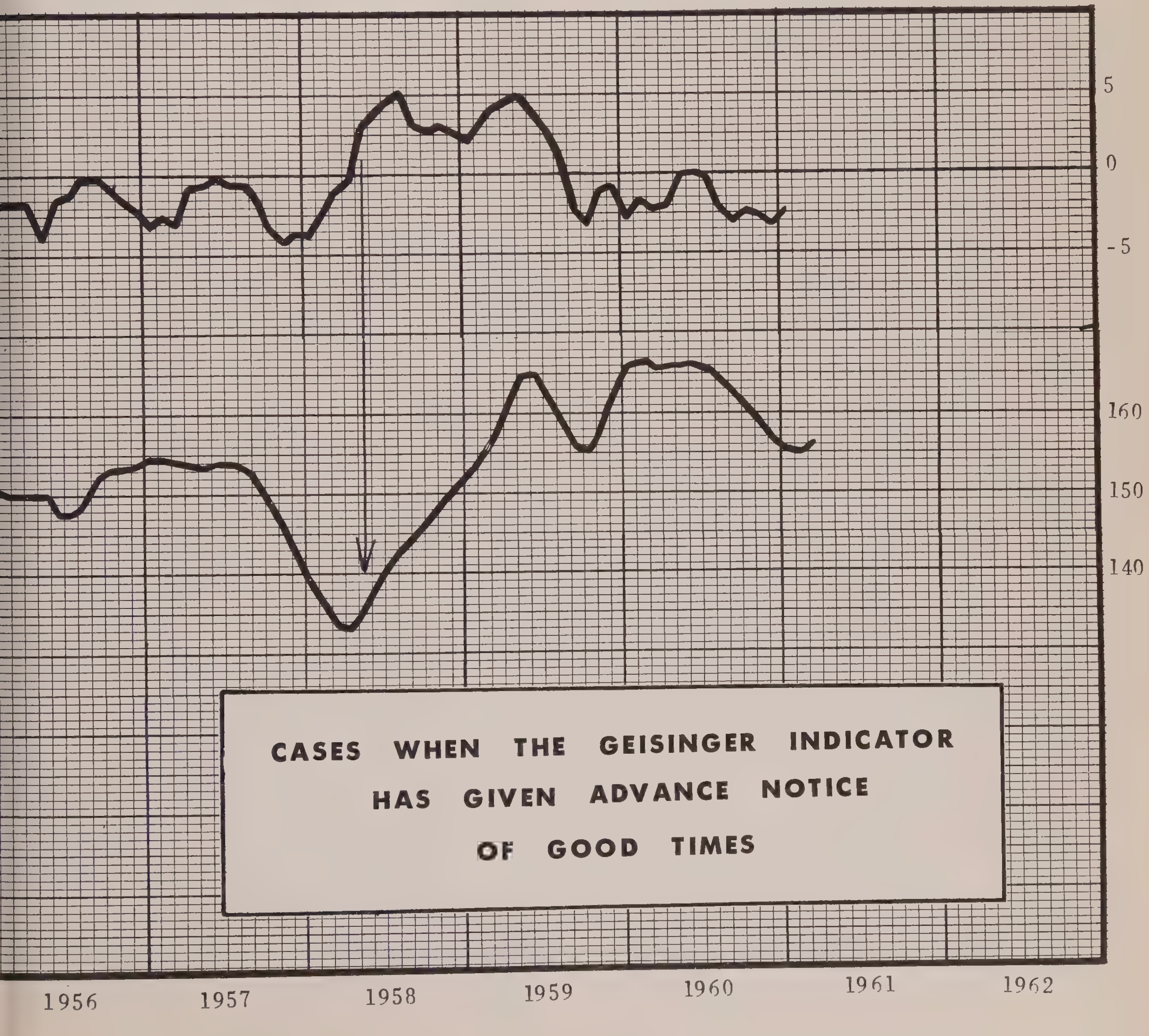
At July 1949, following the 1948-49 slump in production, the Geisinger Indicator crossed plus 2.00. This signal was followed by the sharp rise in production that carried all the way through 1950.

The second case occurred in 1952 when the Geisinger Indicator gave two plus signals, in February and again in May. After this notice, production rose during the last half of 1952 to the peak of 1953.

Again, in late 1954, following three signals, the first of which occurred in April, production turned up, and kept going up to the new highs reached toward the end of 1955.

The fourth instance of a plus 2.00 signal came at May 1958. Production, which had dropped seriously during the last half of 1957 and the early part of 1958, had already turned slightly. However, at May business was still badly depressed, and the plus 2.00 signal indicated that the upturn was not a false start; the uptrend in production continued at a sharp angle until the time of the steel strike of 1959.

This perfect record gives us confidence in the plus 2.00 good times signal. But if you check the entire record you will see several cases where the Geisinger Indicator turned up from a low point, only to have the up-motion peter out. *Only* the cases when the Geisinger Indicator continued on up to cut plus 2.00 were actually followed by boom times. So do not try to second-guess the Indicator. Even if it looks like it might go up far enough, wait and see. You will still have sufficient advance notice of increased production. *G. S.*



CASES WHEN THE GEISINGER INDICATOR HAS GIVEN ADVANCE NOTICE OF GOOD TIMES

The Cycle Workshop

Last month the "Workshop" discussed ratio charts. You will remember the main point of the discussion was that on a *ratio* scale *equal percentages show up as equal vertical distances*. The distance *up* on the chart for a move from 1 to 10 is the same as the distance up on the chart for a move from 10 to 100.

You should always use ratio paper when you are studying cycles because cycles are expressed in percentages. A cycle that is 5% of trend when trend is around 2 will usually still be around 5% of trend when trend is 20, and when trend is 200.

I will illustrate what I mean, and trust the illustration to demonstrate this point more clearly than a thousand words.

The table below sets up an imaginary situation. There is a trend given in Column A, and a cycle given in Column B. The sales figures given in Column C are the result of multiplying Column B times Column C. The cycle is a four-year cycle, and the trend grows sharply in the middle of the period. If this were a real series, all you would have to start with would be Column C, the sales figures.

YEAR	A TREND	B CYCLE (IN %)	C TREND TIMES CYCLE
1930	2	80	1.6
1931	2	100	2
1932	2	120	2.4
1933	2	100	2
1934	2	80	1.6
1935	2	100	2
1936	2	120	2.4
1937	2	100	2
1938	2	80	1.6
1939	2	100	2
1940	2	120	2.4
1941	2	100	2
1942	2	80	1.6
1943	3	100	3.
1944	4	120	4.8
1945	6	100	6
1946	8	80	6.4
1947	10	100	10
1948	12	120	14.4
1949	14	100	14
1950	16	80	12.8
1951	18	100	18
1952	20	120	24
1953	20	100	20
1954	20	80	16
1955	20	100	20
1956	20	120	24
1957	20	100	20
1958	20	80	16
1959	20	100	20
1960	20	120	24
1961	20	100	20
1962	20	80	16

This is a greatly simplified situation, of course. But if you had these figures and were looking for a cycle, you should start by plotting the figures. If you made a mistake, and plotted the figures on *arithmetic* paper, your result would look like the chart in Figure 1.

Here the cycle is faintly visible, but the situation is very simple. In a more complicated situation and with the trend going up even farther than it does here, the cycle would be less visible.

But suppose you plot the figures on *ratio* paper as in Figure 2. The improvement is immediately apparent. The cycle shows up in exactly the same strength at the lower level when the trend is only 2 as it does at the higher level when the trend is 20.

Therefore, it is wise to use the ratio chart paper when looking for cycles. A single wave of a recurring cycle is generally about the same percentage above and below trend as any other wave in the same cycle. On the ratio paper these equal percentages show up as equal vertical distances.

The above statement about the various waves in a cycle having the same percentage is a generality. In actual practice there will be some variation from wave to wave in a cycle over the entire length of the series. The individual waves in a cycle just *tend* to have *about* the same strength at early dates (say in 1910) and at later dates (say in 1950). This is particularly true if the cycle being studied has some significance.

In the previous article on ratio charts, it was mentioned that a ratio chart is often called a log chart. That is because if the figures are converted to logarithms, and the logs charted (instead of the original figures) the chart will look exactly like Figure 2. Of course, you chart the *logs* on arithmetic paper because the use of logs renders the figures into a form when equal differences between the logs will represent equal percentage changes. Logarithms will be discussed next month.

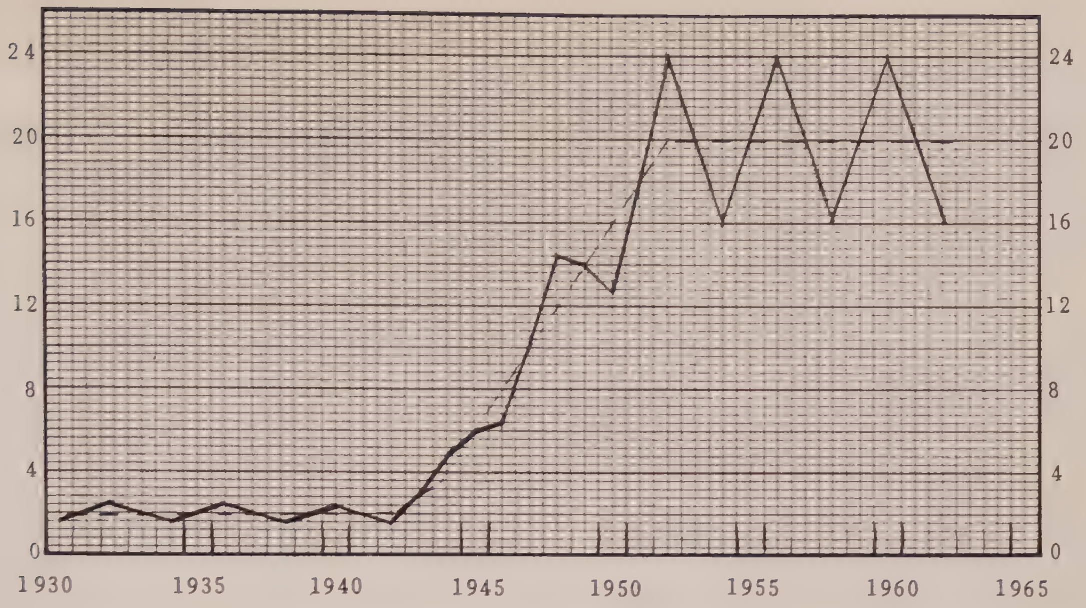


Fig. 1: Numbers Plotted on Arithmetic Scale.
(Broken line shows trend.)

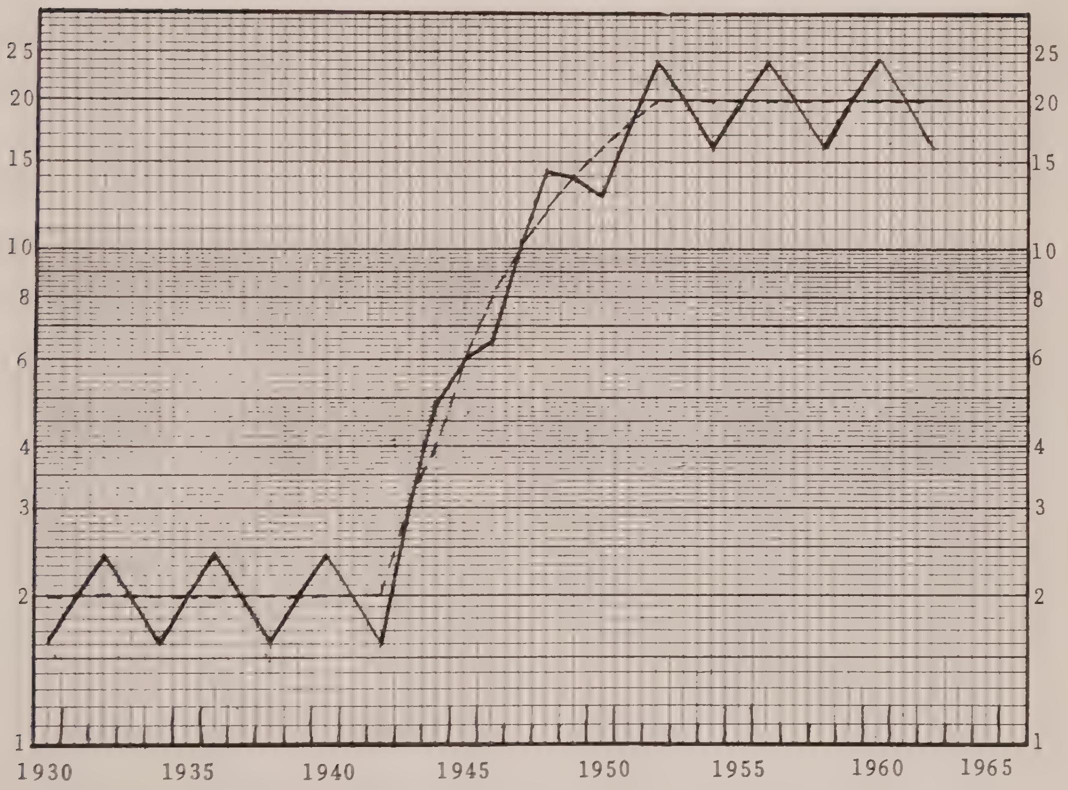


Fig. 2: The Same Numbers Plotted on Ratio Scale.
(Broken line shows trend.)

Note that the cycle shows up just as well when business is small as it does when the business is big.

LETTERS:

Profits—Pro And Con

Editor's Note: In the last paragraph of the May "Director's Letter," (the one about profits), somehow, somewhere along the way the word *indisputable* became the word *disputable*. The last paragraph should have read:

"It should be obvious that in painting this picture I have been using a broad brush—maybe even a whitewash or 'blackwash' brush. There are many situations where economic consideration should *not* govern. After an accident you do not bind up the wounds merely of those who can pay for the bandages! But the fundamental soundness of my position is indisputable. The Government can dispute it only at its peril—and ours."

* * *

Gentlemen:

Thank you for the latest "Director's Letter." If only more people would speak out, we might be able to bring profit back to every person. . .Please don't be too hard on people who wish to spend their money on fancy living, since that wealth contributes to the well-being of caterers, musicians, decorators, boat builders, and many other people whose work is service. . .Free spenders do not match with my ideas of how to manage wealth, but they are perhaps passing it on to others who may be better managers.

The members of government know that people are in great part opposed to what they (the politicians) want. If this were not so taxes would be a voluntary matter. . .instead we have force, or the implied use of force to help us make up our minds. . .Keep up the good work.

Seattle, Washington D. E. Postetter

* * *

Dear Mr. Dewey:

I am fairly rocked back on my heels by your May letter on "Profit." My thinking may unduly distort your viewpoint, yet I do believe that your argument suffers both from anemia and myopia.

I will agree that profit is not reprehensible, and that profit makes progress in our system. But your examples! Your gumboes cost $1 and sell for $2.

Your argument indicates a monopoly. You presuppose a fair competitive wage, but where is the competitive market? Are the gumboes "worth" $2? Or is that what the market will bear? Is your product sold only to meet "need," or artifically created desire (advertising)?

You say you have created $1 worth of social value. Where is it? Is not this social value in reality a claim upon labor and labor product? In the final analysis, only thus does capital go to work. If your capital represents such a claim, does it not in effect represent a power in your hands over the channeling of the efforts of labor? If so, it is your human wisdom and virtue or lack of it which will determine whether the capital accrued is legitimately employed or you earn the title of exploiter. Enter the human element, ethics, morality, and those painful realities which have been a prime cause in begetting the governmental interference you deprecate.

"Labor had nothing to do with creating the wealth." Just who made the gumboes? How would you have had a profit without labor? Is your ingenuity your carte blanche to the profit? Or does your intelligence imply more of a responsibility to others than a claim to wealth?

The tract of land from 50 cents to $5000, an increase in value brought about by the use of capital. The promoters created value all right—in the *land*! No real value is created if they manage to milk the buyer of an especially high price; this just means that more capital is being expended to get product from the land.

On the face of it, we're probably about as far apart as possible, but I have an idea that in a proper definition of terms and reanalysis of presuppositions, the positions wouldn't appear so inimical at all.

Montpelier, Vermont C. V. Parkinson

* * *

Dear Mr. Dewey:

Your letter in the May issue "hit me right n the wheelhouse" as we used to say in Maine when I was a boy. Isn't there some way this would be given a wider circulation—say in *Reader's Digest*? I believe you'd be doing our country a great service if you could get that done.

Youngstown, New York O. L. Mahlman

* * *

Dear Mr. Dewey:

Your deification of profit is reminiscent of technocracy, Plato's *Republic*, and preachments of the efficiency crowd, not the least of whom effected a happy marriage with German industrialists.

How is profit achieved? To what extent should profit be shared with labor? Should government spending operate on a profitable basis? These seem to be the important questions raised which require more attention than they received.

We find that profit consists in gumboes sold at twice the cost of production. The greater the profit, "the more real wealth created. Creating profit is to be *praised*, no matter how excessive."

Obviously the Securities Exchange Commission ranks as one of the most profound fuddy-duddy ideas of the age because it is specifically designed to curb the sharp practices which in the past led to fantastic profits. Likewise, the Food and Drug Administration. . .the Justice Department. . .which act on a basis usually antithetical to individuals most interested in maximizing the return on their investment.

Labor is not entitled to any profit because it did not participate in creating the profit. Why didn't it participate? Simple. Wealth is not gumboes; wealth is profit and profit is the answer to a simple problem in subtraction. Wealth is fair or slick deals. Profit (or wealth) need not be shared with labor that helped create the commodity (or was laid off so that a shortage would develop in a monopolistic industry).

Now we turn to government spending and whether or not it should operate on a profitable basis. The Kinzua Dam has been justified on the basis of utility. Studies to arrive at a cost-benefit ratio have to be computed before any such project is submitted for Congressional approval. If issue is to be taken to this particular project, the only proper basis would be to question the method of computation. The benefits in this cost-benefit ratio are not computed on the basis of increased property values, but rather on the costs which occur through flood damage.

Kittanning, Pennsylvania R. B. Dennis

* * *

Dear Mr. Dewey:

Congratulations on the "Director's Letter" in the May issue. Very rarely does anyone speak out so forcibly on the importance and function of profit in our free enterprise system.

Although I may not entirely agree with you on your philosophy of spending, I do consider money a trust to be spent for creating additional jobs, to further the cultural values of our way of life, to promote spiritual and philosophical thinking and to help those less fortunate.

However, the term, "modest spending" is a relative term. Modest spending to someone in a high income bracket might be looked upon as exorbitant spending by someone in a lower income bracket. In other words, I feel that a person who has had the ability or good luck to make money has the right to enjoy a few of the luxuries and comfort that money can purchase. But, the main purpose of this letter is to compliment you on such a forceful "Director's Letter."

Wichita, Kansas Clarence Coleman

* * *

Dear Sir:

May I comment on the May letter by mentioning two human traits which are universal—they are found over all of history in all places, and they will continue to be found.

The first trait is greed. How much is enough? Just a little bit more—just a little more time, just a little more money, just a little more power.

The second trait is that wealth, and its partner, power, corrupt by their very nature. It is sad, but it cannot be avoided. A million well-worded rationalizations cannot remove the fact. The corrupting force of money and power operates on business organizations, labor unions, political parties, churches, even on you and me.

This is why a system which is built to

contain greed and the power that comes to successfully greedy people and groups, is superior. The question of profit, how much is good, and to whom it should go has never been decided on the basis of morality, or sound (?) economics—these questions have been decided on the basis of political power *solely*.

You are disturbed because the $1 profit may be considered "bad," or as not belonging to you at all, the worker is disturbed because he feels that most of that dollar should be his, and I am disturbed because I think the gumboes should sell for only $1.10. But what actually happens to the $1.00 will depend on where the power lies. When one power group becomes corrupt (by the nature of power) it is then overthrown by a fresh power group and whatever happened to the $1 will change according to the wishes of the second power group—until they in turn are corrupted and overthrown and so on, ad infinitum.

Pittsburgh, Pennsylvania A. O.

* * *

Dear Mr. Dewey:
I would like more editorials like in the May issue. Give it to 'em!

Allentown, Pennsylvania C. Vogt

Trend Adjustment

Dear Mr. Dewey:
I would like to ask a question that others may also be asking. I have watched your stock market cycles for many years and have noticed that each time they are published the market is higher than the projection. And yet the next time they are published the prediction and the actual market seem to be in line.

Now I know you make adjustments for trend. But does this not cancel out your projection? If we can adjust afterwards and call it adjustment for trend, are we not defeating the purpose?

I particularly like your "Director's Letters." Why is it that so many thoughtful people think this way too, but that those who depend on votes find it advisable, if they are to stay in office, to promise "pie in the sky"? I am wondering if this has not been a major contributing factor in the decline of democracies in the past.

Red Bluff, California Grant Merrill

Comment: In so far as cycles are real and continue they are useful to throw light on the future. Trend, however, is something we have to grope our way along much as we drive a car in a bad fog. If the trend proves to be higher than we thought it would be, we need to get back on the track, just as you turn the wheel of the car when you find you're getting off the road. There is no need continuing on the wrong track when you learn that it is the wrong track. The projection, however, should be judged in the terms of the track as laid down previously.

Ideally, trend in yearly figures should be revised every year; for some figures trend should be revised every month, every week, or every day. Next year's trend is much more likely to be nearer this year's trend than last year's trend, or the trend of the year before that.

We are faced with the dilemma that if we show only the cycle performance (with trend as 100%), people say that the figures should be in real terms and the presentation made as practical as possible. On the other hand, the more practical we become in our presentations, the more we have to adjust for the constantly changing realities. E. R. D.

The Geisinger Indicator

Dear Mr. Dewey:
I decided to plot one of our sales records on your Geisinger Indicator graph purely as an academic exercise. This record consists of sales totals on a moving thirteen month basis, and represented raw data unadjusted. You may understand my amazement to discover that the peaks and valleys of our own sales correspond precisely within approximately 30 days to the peaks and valleys of your advanced indicator covering a period of over seven years.

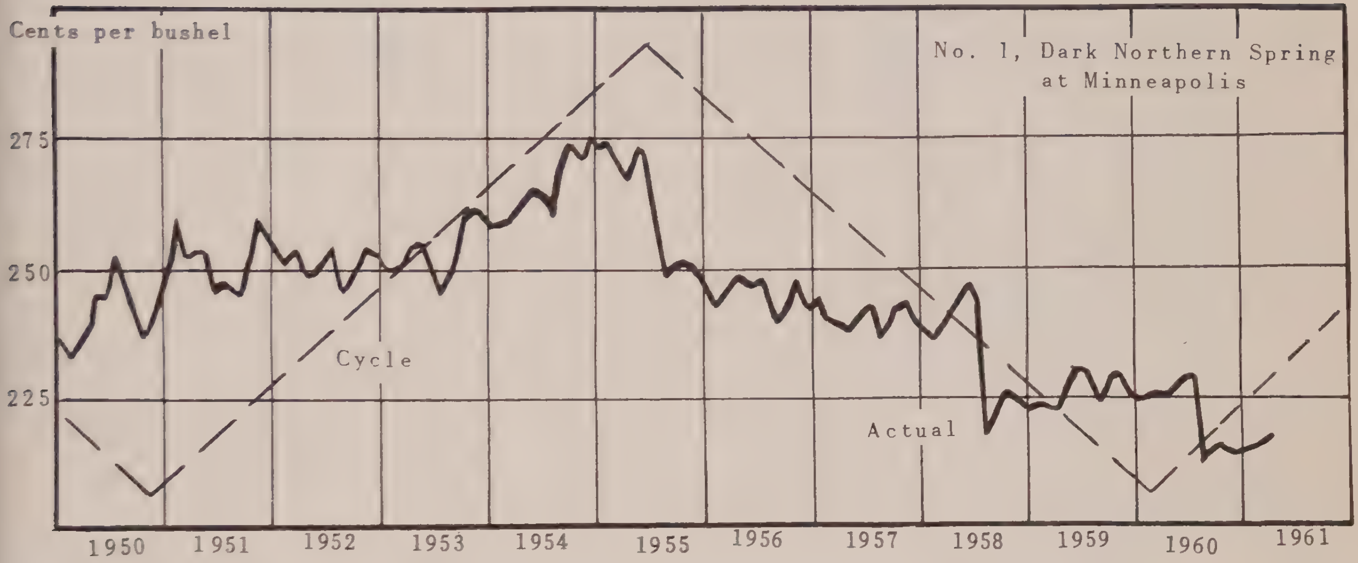
We have recently been prone to call the low of March 1961 as a definite bottom, and to presume that the trend from hereon will be upward. This does not quite agree with the Geisinger Indicator, and we are now inclined to temper our optimism until such time as the Geisinger Indicator makes a definite bottom. I'm not sure that this was the intent of the Indicator, but I'm sure that you would be interested to know how closely it parallels our own actual experience.

Indianapolis, Indiana R. F. Seeburger

The Cycle Round-Up

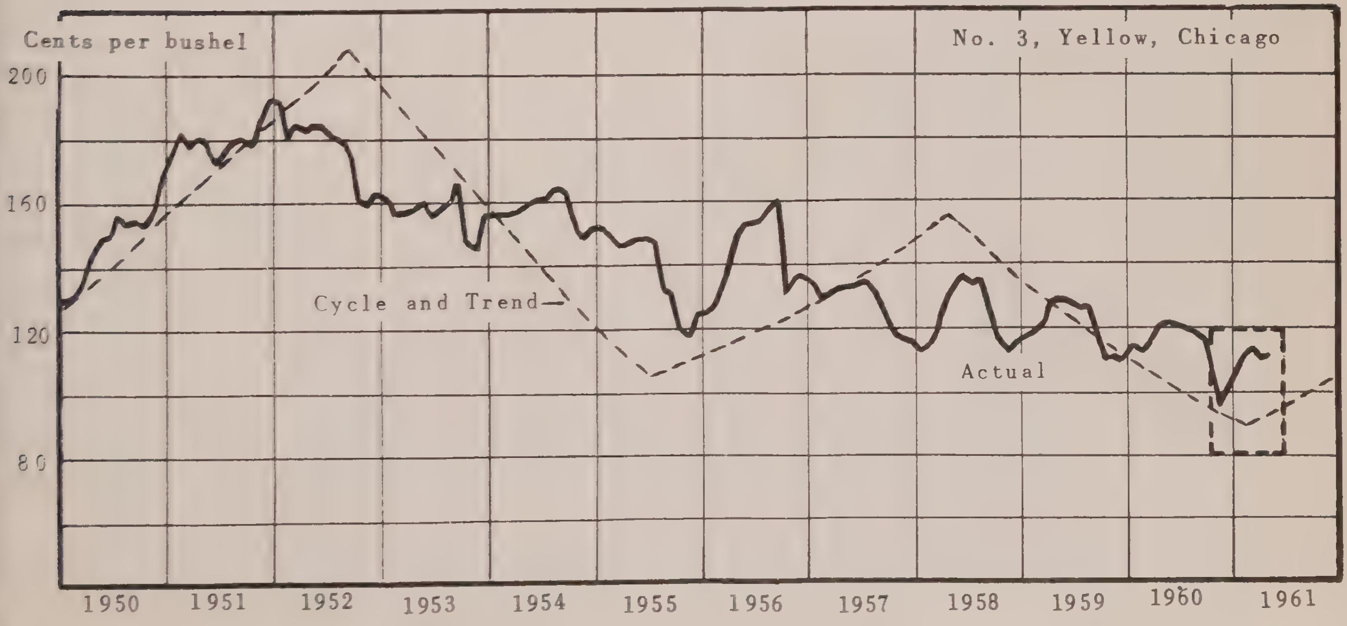
WHEAT

The 9.3-year cycle in the price of wheat is now on the way up to a high due, on the average, about October 1964. The price of No. 1, dark northern spring wheat at Minneapolis was $2.171 per bushel during April.



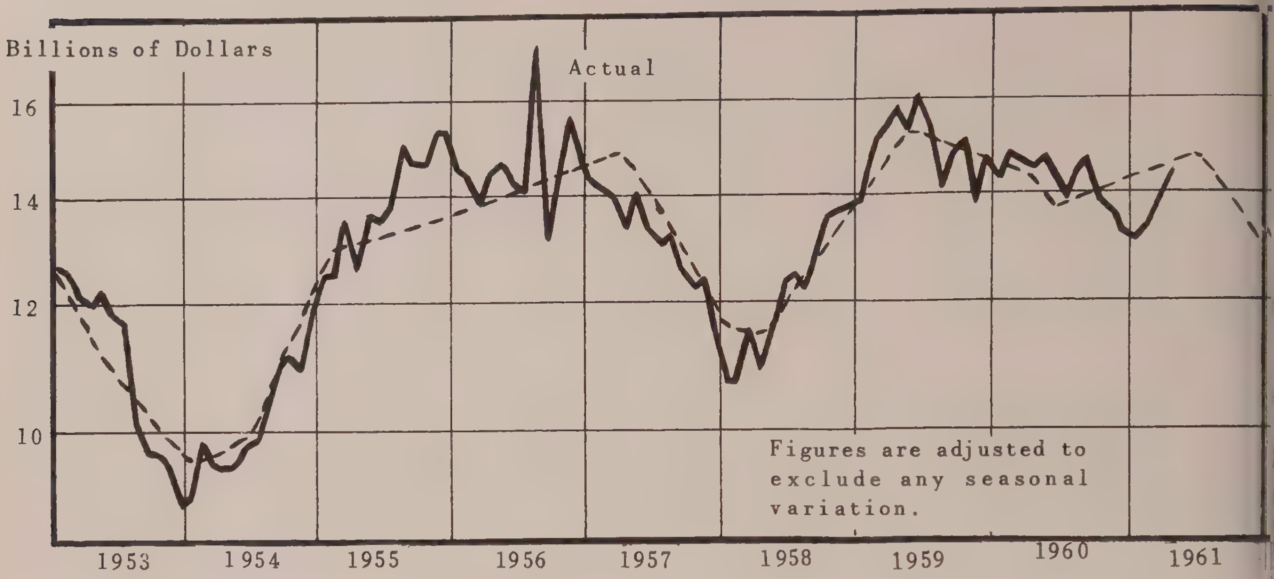
CORN

The price of No. 3 yellow corn at Chicago averaged $1.081 per bushel during April. The cycle shown on the chart is 67 1/3 months long.



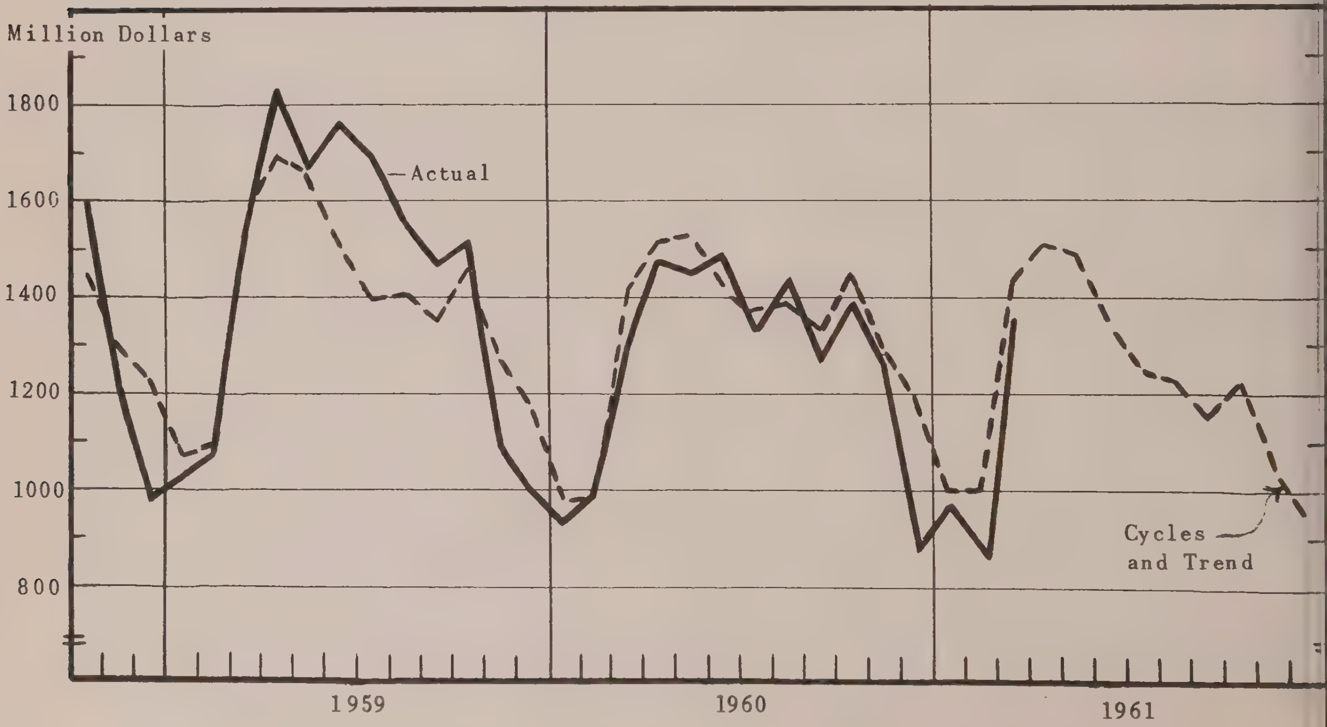
NEW ORDERS FOR DURABLE GOODS

Manufacturers' new orders for durable goods rose sharply in April to 14.5 billion dollars. This figure is a preliminary estimate by the Department of Commerce.



RESIDENTIAL CONSTRUCTION CONTRACTS

The total value of residential construction contracts let, as compiled by F. W. Dodge Corporation, went up in March to 1,371 million dollars. The March 1961 value was 6% above the value for March 1960.



HE GEISINGER INDICATOR

onclusion-neutral

All the indicators have now turned. To be ure, this turn covers only one month in the eisinger Indicator, but it is heartening that he Indicator did stop declining and turned pward.

Actual production, after adjustment for easonal variation, went up in April. The reliminary Federal Reserve Board's Index of ndustrial Production was 159 for April, up our points from March, and perhaps ending the ecline that started in February 1960.

The Geisinger Indicator went up in January o -2.20. The worst it could be for February based on our *preliminary* information) is -2.0. The best it could be for February is -0.4.

The First Difference Indicator also went up from -0.83 in February to +0.50 in March, continuing the rise which started in January.

The Modified Indicator was also up, from -5.20 in December to -3.87 in January (September 1961 when advanced).

We have not matched the recent optimism of Washington publicity, but in interpreting these Indicators we stick to the facts, and until this month's report there has been no real reason for optimism. The Geisinger Indicator did turn in January (September when advanced). This is cheering, but we will not say "good times for sure" until it actually cuts +2.00 going up. Remember that these Indicators apply only to physical production.

May 24, 1961 E. R. Dewey

The recent figures:

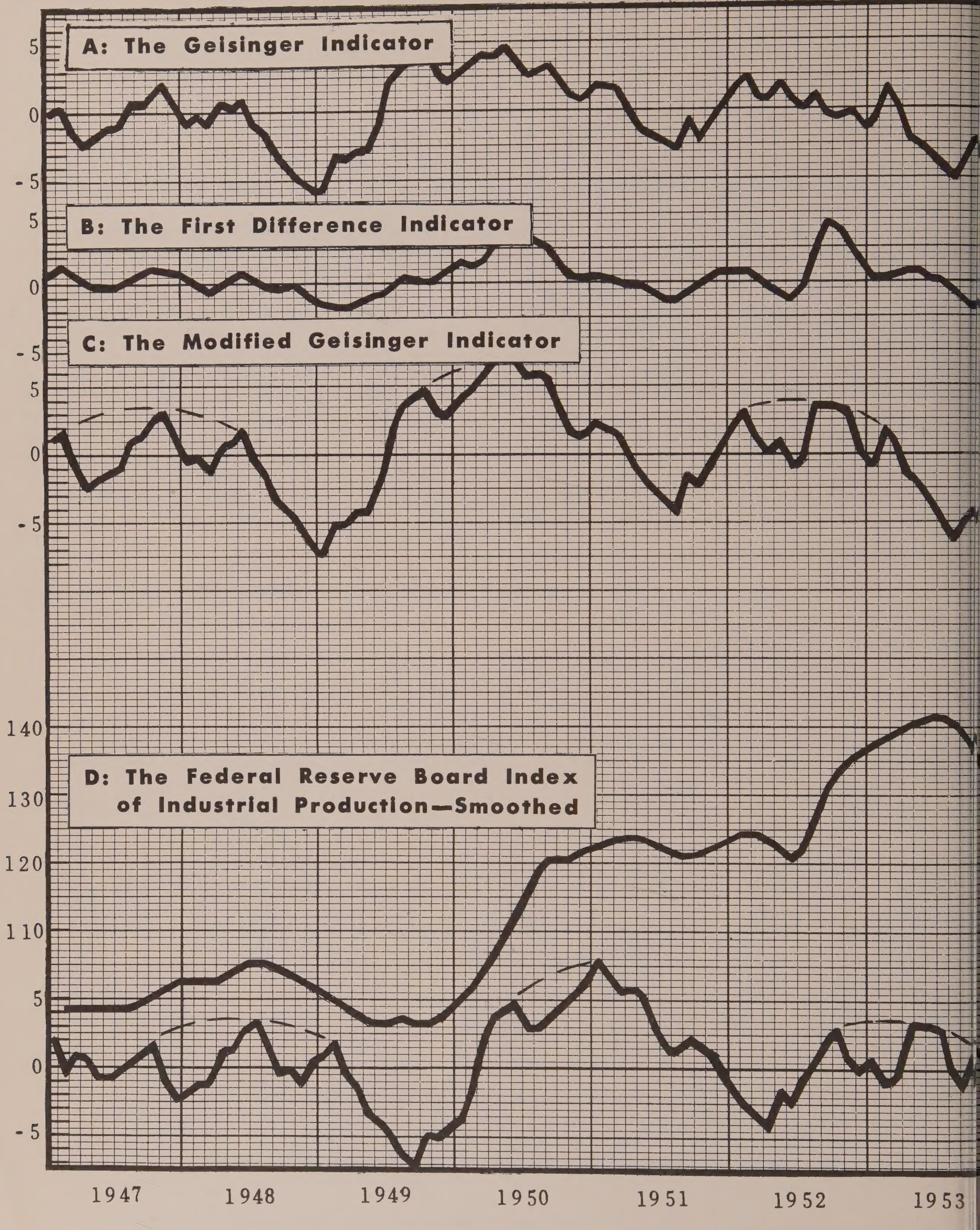
Month	F.R.B. Index	Geisinger Indicator	First Difference Indicator	Modified Geisinger Indicator	Timing Advanced 8 Months
Jul-1960	166	0.00	-0.17	-0.17	1961-Mar
Aug	165	-2.20	-1.00	-3.20	Apr
Sep	162	-3.00	-1.50	-4.50	May
Oct	161	-2.40	-1.83	-4.23	Jun
Nov	159	-2.60	-2.00	-4.60	Jul
Dec	156	-3.20	-2.00	-5.20	Aug
Jan-1961	155	-2.20	-1.67	-3.87	Sep
Feb	155	*	-0.83	*	Oct
Mar	155	*	+0.50p	*	Nov
Apr	159p	*	*	*	Dec

p - preliminary; * - not yet available

For $3 a year extra members can get the Geisinger Indicator text and figures by first-class mail immediately after it is written. This service saves you the two weeks that it takes to print and mail Cycles, plus the two weeks it takes the Post Office to deliver it.

The chart: See the next two pages

The Geisinger Indicator Compared To Indust



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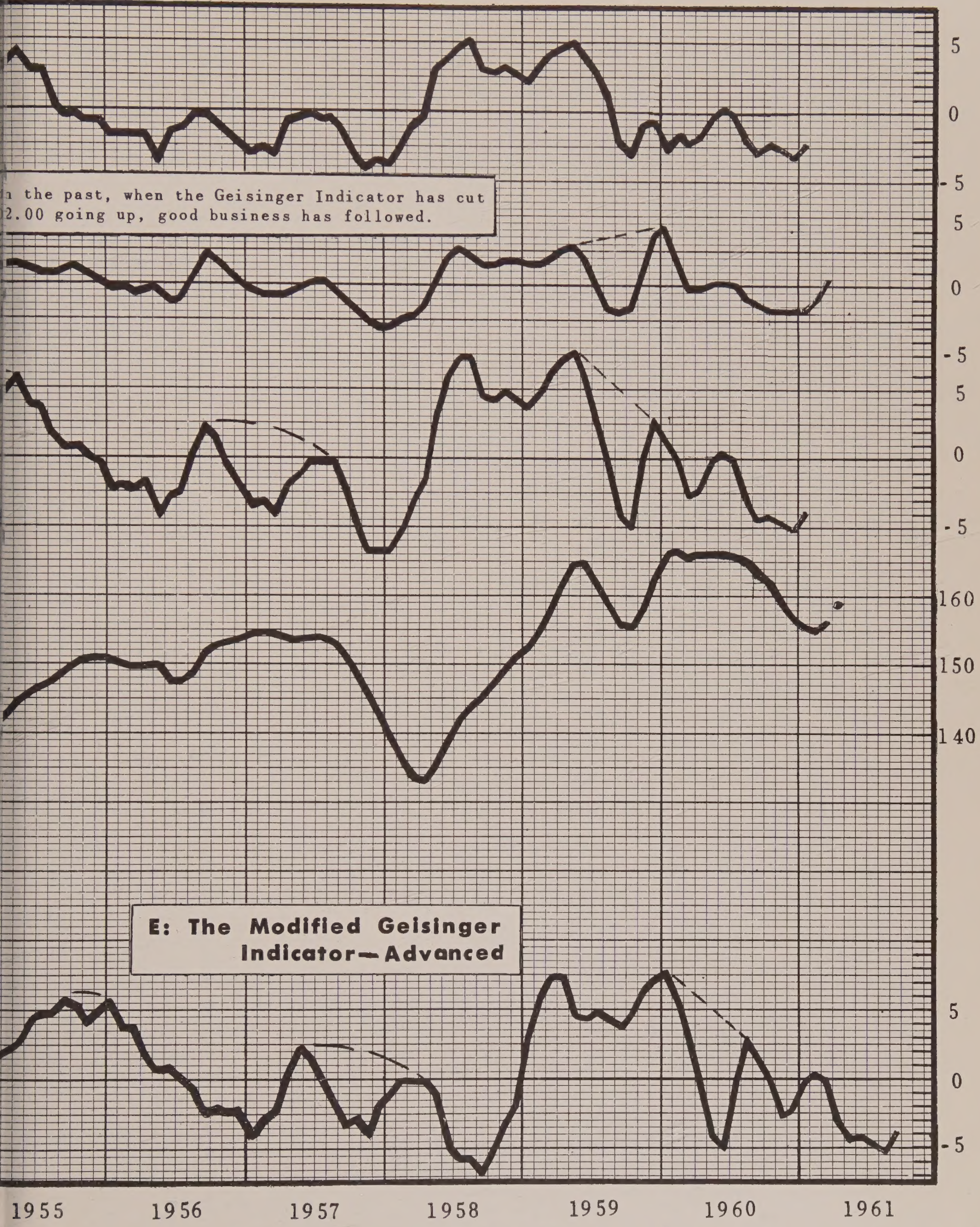

n the past, when the Geisinger Indicator has cut 2.00 going up, good business has followed.

E: The Modified Geisinger Indicator—Advanced

H A MUSHAM
741 N RUSH ST
CHICAGO, ILL